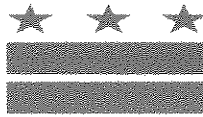


**Government of the District of Columbia**  
**Department of Insurance, Securities and Banking**



**Thomas E. Hampton**  
**Commissioner**

**BEFORE THE INSURANCE COMMISSIONER  
OF THE DISTRICT OF COLUMBIA**

Full-Scope Examination of AssureCare,  
a Risk Retention Group, as of December 31, 2005

**ORDER**

A full-scope examination of AssureCare, a Risk Retention Group (AssureCare), as of December 31, 2005 was conducted at its office in accordance with the provisions of Section 15 of the Captive Insurance Companies Act of 2004.

The examiners, Lewis & Ellis Actuaries & Consultants, concluded that net losses and LAE liabilities reported by AssureCare were reasonable.

Attached are the final Full-Scope Examination Report and a copy of AssureCare's response to the Department's draft examination report dated January 30, 2006

It is hereby ordered on this 19<sup>th</sup> day of March, 2007, that the attached Full-Scope Examination Report be adopted and filed as an official record of this Department. All findings and conclusions resulting from the review of the Full-Scope Financial Examination Report, and any appropriate changes based on the Company's written submissions or rebuttals are incorporated in the attached Report.

The Department will continue to hold the contents of the Examination Report as private and confidential information for period of ten (10) days from the date of this Order.

Thomas E. Hampton  
Commissioner of Insurance,  
Securities and Banking

GOVERNMENT OF THE DISTRICT OF COLUMBIA  
DEPARTMENT OF INSURANCE, SECURITIES AND BANKING



REPORT OF EXAMINATION  
OF  
ASSURECARE, A RISK RETENTION GROUP  
AS OF  
DECEMBER 31, 2005

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## SALUTATION

Washington, D.C.  
October 23, 2006

The Honorable Alfred W. Gross  
Chair, NAIC Financial Condition (E) Committee  
Bureau of Insurance  
Virginia State Corporation Commission  
PO Box 1157  
Richmond, VA 23218

The Honorable Thomas E. Hampton  
Commissioner of Insurance  
Department of Insurance, Securities and Banking  
Government of the District of Columbia  
810 First Street, NE, Suite 701  
Washington, D.C. 20002

Dear Commissioners:

In compliance with the instructions and pursuant to the statutory provisions of § 31-3931.14 of the District of Columbia Insurance Code ("DCIC"), we have examined the financial condition and activities of:

### **AssureCare, a Risk Retention Group**

hereinafter referred to as the "Company". The examination was conducted at the principal offices of the captive manager, Gallagher Captive Services, Inc. ("GCS") located at 110 Kimball Avenue, Suite 110, South Burlington, VT 05403. The report of examination thereon is respectfully submitted.

## **SCOPE OF THE EXAMINATION**

This examination encompasses the year commencing January 1, 2005 through December 31, 2005. The examination was conducted in accordance with guidelines and procedures promulgated by the National Association of Insurance Commissioners ("NAIC") and the District of Columbia Department of Insurance, Securities and Banking ("DISB") and included such tests of the accounting records and other examination procedures as were considered necessary. This is the first examination of the Company conducted by the DISB.

Ernst & Young, LLP ("E&Y"), an independent public accounting firm, audited and expressed an unqualified opinion on the Company's financial statements for 2005. We reviewed the workpapers prepared by E&Y and placed high reliance on the auditing procedures performed by them.

The examination included verification and evaluation of assets, determination of the existence and valuation of liabilities, compliance with applicable laws and regulations, compliance with the Company's plan of operation filed with the DISB and a general review and analysis of the Company's corporate governance and operations. District of Columbia Law requires Generally Accepted Accounting Principles as modified by District of Columbia Laws or DISB Regulations as the accounting basis for the Company's financial statements.

## **HISTORY**

The Company was originally formed as a Company limited by guarantee under the laws of the Cayman Islands on December 28, 2001 to provide general and professional

liability coverage for nursing home facilities. On May 25, 2005, the Company re-domiciled to the District of Columbia and reorganized as a risk retention group owned by its members.

## **MANAGEMENT AND CONTROL**

### **CORPORATE RECORDS**

The examination included a review of the Company's Restated and Amended Articles of Incorporation, Articles of Domestication, By-Laws and Minutes of the Meetings of the Board of Directors. These documents set forth the powers of the Board of Directors and document significant transactions and decisions relating to the Company by the Board of Directors.

### **BOARD OF DIRECTORS**

The Company's Board of Directors serving as of December 31, 2005 was as follows:

<u>Name</u>	<u>Principal Affiliation</u>
Ross Bottner	NuCare Services Corporation
Natan Weiss	The Lincoln Home
Manny Binstock	Kensington Group
Ben Klein	Platinum Healthcare
Marshal Mauer	Dynamic Healthcare, Ltd.
Mark Hollander	Itex Corporation
Marvin Mermelstein	Central Nursing Home
Bradley Alter	Certified Health Management, Inc.
Mark Pick	Ballard Nursing Center
Boaz Kohn	Dobson Plaza
Sherwin Ray	Careplus Management
Barry Ray	Glen Health & Home
Dan Shabat	Waterford & Heritage

## OFFICERS

The following officers serve in accordance with the By-laws as of December 31, 2005:

<u>Name</u>	<u>Title</u>
Ross Bottner	President
Barry Ray	Past President
Natan Weiss	Treasurer
Ben Klein	Secretary
Kevin Heffernan	Assistant Secretary

## COMMITTEES

The Board of Directors receives reports from the following committees: the Claims Committee, the Finance Committee, the Risk Management Committee and the Underwriting Committee.

## CONFLICT OF INTEREST

26 DCMR 3712.1 and 3712.2 require that all officers, directors and key employees submit annual conflict of interest statements to the Board of Directors. The Company has an established procedure for the disclosure of any material interest or affiliation on the part of its directors, officers, and key management personnel, which may be in conflict with the official duties of such person through the use of signed conflict of interest statements. Signed conflict of interest questionnaires for the period under examination were reviewed with no conflicts noted, although all were not received timely, and in some instances, the conflict of interest statements were not dated.

### **ERRORS AND OMISSIONS INSURANCE**

GCS has claims made errors and omissions coverage through Indian Harbor Insurance Company with coverage up to \$20 million. The Company satisfies the minimum amount of errors and omissions insurance coverage recommended by the NAIC.

### **TERRITORY, PLAN OF OPERATION AND RECORD KEEPING**

The Company is licensed in the District of Columbia as a risk retention group and may write liability coverage throughout the United States with notice to the insurance regulator where the risk resides. The Company currently provides general and professional liability coverage on a claims-made basis for 15 nursing home members who have facilities in the State of Illinois. The Company's plan of operation was approved by the DISB when the Company re-domiciled to the District of Columbia.

For the period December 31, 2002 to March 31, 2003, the Company assumed reinsurance on a claims-made basis from Royal Indemnity Insurance Company. The Company's liability is limited to \$250,000 per claim.

Effective April 1, 2003, the Company directly insures its members for \$500,000 per claim in excess of a \$75,000 self-insured retention ("SIR") per member and subject to aggregate limits of \$1.5 million for general liability, \$1.5 million for professional liability and \$5 million for the policy aggregate. Each member has executed a participation agreement with the Company which requires each member to provide a \$12,000 capital contribution and adequate collateral in the form of cash or a letter of credit to secure the SIR and receivables



from members which are calculated to an experience-rated formula. The agreement also governs termination of a member's participation in the program and any related distributions.

The Company is managed by GCS, and its responsibilities are set forth in a written contract. These responsibilities include the maintenance of all accounts and records, banking duties, preparations of financial statements and filing of such financial statements and other required filings with the DISB. The contract has not been updated since the Company re-domesticated to the District of Columbia.

The Company markets their products exclusively through Assurance Agency, Ltd. ("Assurance Agency") of Schaumburg, IL, a privately-held insurance brokerage and risk management company. Assurance Agency has a contract with GCS setting forth its authority and responsibility, contract termination and commission payments. The Company has not filed the contract between GCS and Assurance Agency with the DISB.

The Company has a contract for claim services with Gallagher Bassett Services, Inc. ("GBS"). Responsibilities of GBS include investigation, documentation, recording and settlement of claims.

Underwriting responsibilities are conducted by GCS and Assurance Agency. GCS performs a review of prospective members' loss activity in conjunction with the Company's consulting actuary, Pinnacle Actuarial Resources, Inc. ("Pinnacle") while Assurance Agency is responsible for evaluating risk management procedures. The reinsurer, Ace Property and Casualty Insurance Company ("Ace"), must also assent to the acceptance of the prospective member when the initial premium is greater than \$1 million. Once all the underwriting information is obtained, the above parties jointly determine whether the risk should be accepted.

The Company's plan of operation includes banking and investment custodial services with U.S. Bank, which also provides letters of credit for the benefit of third parties as required for the Company's operations. These third parties include Royal Indemnity Insurance Company from whom the Company's predecessor assumed business in the first year of the program's operations. The letter of credit secures losses on assumed business, and the outstanding balance at December 31, 2005 is \$5,320,501. The Company has also provided a letter of credit to the Internal Revenue Service. The outstanding letter of credit is \$642,223 at December 31, 2005. Both letters of credit are secured by the Company's cash and trading securities and as well as letters of credit provided by the members to the Company.

Our review of the Company's investment policy and investments held indicates that the Company has invested in corporate debt securities which are not included in the investment policy approved by the DISB. This material change was not submitted to the DISB for prior approval in violation of DCIC § 31-3931.09(f) which requires the filing of any material change to the DISB for prior written approval.

### **MARKET CONDUCT REVIEW**

An examination of market conduct activities has not been performed on the Company by DISB. However, as part of our underlying data testing, specific claims were reviewed to ensure that the claim files are properly documented, reasonably reserved and timely settled. The examination noted that claims appeared to be properly documented, reasonably reserved and timely settled.

## REINSURANCE

For the period December 31, 2002 to March 31, 2003, the Company assumed reinsurance on a claims-made basis from Royal Indemnity Insurance Company. The Company's liability is limited to \$250,000 per claim.

Effective April 1, 2003, the Company directly insures its members for \$500,000 per claim in excess of a \$75,000 SIR per member and subject to aggregate limits of \$1.5 million for general liability, \$1.5 million for professional liability and \$5 million for the policy aggregate. The Company ceded to American Re-Insurance Company the risk layer, \$325,000 excess of \$250,000, including the \$75,000 SIR per claim. Effective April 1, 2004, the reinsurance risk layer was changed to \$250,000 excess of \$325,000 which includes the \$75,000 SIR per claim. Pro-rata share of loss adjustment expenses are also ceded.

Effective June 1, 2005, the \$250,000 reinsurance risk layer excess of \$325,000 which includes the \$75,000 SIR per claim plus its pro-rata share of loss adjustment expenses was ceded to Ace. The agreement also includes an annual 250% loss ratio cap. Under this agreement, for the first year, the Company agreed to pay a minimum \$2,787,239 premium which is based on \$307.68 per nursing home bed. The change in reinsurers, a material change in the plan of operation, was not provided to the DISB for prior approval as required by DCIC § 31-3931.09(f).

## **ACTUARIAL REVIEW OF LOSSES AND LOSS ADJUSTMENT EXPENSES**

The DISB retained the actuarial firm of Lewis & Ellis, Inc. ("L&E") to perform a peer review of Company's estimate of loss and loss adjustment expense reserves, net of reinsurance, prepared by its independent actuary, Pinnacle. The examiners verified the accuracy and completeness of reported and paid claim data used by L&E. L&E reviewed Pinnacle's calculation of the indicated reserves and determined that such reserves are sufficient to meet the Company's claim obligations. Specifically, L&E concluded that the development factors and methods utilized by Pinnacle were reasonable. Further, L&E determined that reserves carried by the Company are greater than the point estimate indicated by the Company's opining actuary since there is an explicit margin added to increase such reserves to an 85% confidence level.

Further, L&E reviewed the Company's Schedule P and noted that all 2005 earned premium was allocated to accident year 2005. Since some of the business was written in prior years, the audit premium was not allocated to the appropriate years as required by the NAIC Annual Statement Instructions. In addition, the Company has reported Schedule P claim data by policy period and not by accident year as required by the NAIC Annual Statement Instructions.

## **SUBSEQUENT EVENTS**

The examiners reviewed Company records, made inquiries to management and made inquiries to attorneys handling litigation to evaluate whether significant subsequent events

required accrual or disclosure in the financial statements. The examiners noted no such matters requiring accrual or disclosure.

### **FINANCIAL STATEMENTS**

The Company filed an amended Annual Statement for the Year Ended December 31, 2005 on or about September 30, 2006 to record material adjustments to the financial statements by E&Y during the 2005 independent audit. The Company's financial position at December 31, 2005, and its operations during 2005 are presented as amended in the following financial statements:

1. Balance Sheet as of December 31, 2005
2. Statement of Operations for the Year Ended December 31, 2005
3. Statement of Changes in Members' Equity for the Year Ended December 31, 2005
4. Schedule of Examination Adjustments

**BALANCE SHEET**  
**AS OF DECEMBER 31, 2005**

Assets:

Cash and Cash Equivalents	\$969,686
Trading Securities, at fair value	13,675,266
Reinsurance Losses Recoverable	11,452,984
Provisional Loss Experience Charges Receivable	6,322,587
Loss Experience Charges Receivable	1,442,875
Deferred Reinsurance Premium	1,269,927
Reinsurance Reimbursement Receivable	243,747
Premiums Receivable	88,113
Deferred Policy Acquisition Costs and Prepaid Expenses	660,167
Other Assets	142,415
Total Assets	<u><u>\$36,267,767</u></u>

Liabilities and Members' Equity:

Reserves for Losses and Loss Adjustment Expenses	\$28,576,784
Unearned Premium Reserves	3,733,980
Claims Payable	218,626
Deferred Income Taxes	782,607
Accounts Payable and Other Liabilities	294,379
Total Liabilities	<u><u>33,606,376</u></u>

Members' Equity:

Capital	192,000
Additional Paid-In Capital	1,100,426
Retained Earnings	1,368,965
Total Members' Equity	<u><u>2,661,391</u></u>
Total Liabilities and Members' Equity	<u><u>\$36,267,767</u></u>

## STATEMENT OF OPERATIONS

### FOR THE YEAR ENDED DECEMBER 31, 2005

Premium Written	\$9,428,277
Change in Unearned Premium Reserves	(621,661)
Reinsurance Premiums Ceded	(3,276,304)
Change in Deferred Reinsurance Premium	269,628
Loss Experience Charges	1,118,999
Change in Provisional Loss Experience Charges	1,618,015
Total Revenues	<u>8,536,954</u>
Underwriting Expenses:	
Loss and Loss Adjustment Expenses Incurred	6,074,977
Policy Acquisition Costs and Other Expenses	1,566,959
Total Underwriting Expenses	<u>7,641,936</u>
Net Underwriting Income	895,018
Other Income and Expenses:	
Investment Income	210,675
Administrative Expenses	(393,885)
Reinsurance Rebate	130,992
Tax Refund	67,210
Total Other Income and Expenses	<u>14,992</u>
Income Before Taxes	910,010
Deferred Income Tax Expense	(360,061)
Net Income	<u><u>\$549,949</u></u>

**STATEMENT OF CHANGES IN MEMBERS' EQUITY**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

Balance at December 31, 2004	\$1,690,747
Net Income	549,949
Additional Paid-In Capital	426,003
Other Comprehensive Loss	(5,308)
Balance at December 31, 2005	<u>\$2, 661,391</u>



### SCHEDULE OF EXAMINATION ADJUSTMENTS

	<u>Balance Per Company</u>	<u>Balance Per Examination</u>	<u>Adjustments</u>
Assets	\$ 36,267,767	\$ 36,267,767	\$ -
Liabilities	33,606,376	33,606,376	-
Total examination adjustments			0
Company Members' Equity, December 31, 2005			<u>2,661,391</u>
Examination Members' Equity, December 31, 2005			<u><u>\$ 2,661,391</u></u>

## **COMMENTS AND RECOMMENDATIONS**

The Company transitioned many of its administrative functions in late 2005 and early 2006 from the Cayman Islands to the United States as a result of its redomestication to the District of Columbia. The Company states that the transition from operating as an offshore captive to a domestic RRG contributed to some of these observations and comments.

### **1. Conflict of Interest Statements**

26 DCMR 3712.1 and 3712.2 require that all officers, directors and key employees submit annual conflict of interest statements to the Board of Directors. While the Company has a policy to annually obtain such conflict of interest statements, such statements have not been obtained in a timely manner in all instances. Further, in some cases, the statements were not dated. The Company shall ensure that all conflict of interest statements are obtained annually on a timely basis and that all such statements are signed and dated.

### **2. GCS Contract with the Company**

The responsibilities of GCS are set forth in a contract with the Company. These responsibilities include the maintenance of all accounts and records, banking duties, preparations of financial statements and filing of financial statements and other required filings with the DISB. The contract has not been updated since the Company re-domesticated to the District of Columbia, and its provisions require maintaining compliance with the laws of the Cayman Islands and not the District of Columbia. The Company shall revise the contract and file the contract with the DISB for prior approval.

### 3. GCS Contract with Assurance Agency

The responsibilities of Assurance Agency are set forth in a contract with GCS which has not been filed with the DISB. The Company shall file the contract with the DISB for approval.

### 4. Material Change in Investment Policy

Our review of the Company's investment policy and investments held indicates that the Company has made a material change in its plan of operation and did not notify the DISB of that change to allow for prior written approval in violation of DCIC § 31-3931.09(f). The Company has invested in corporate debt securities which are not included in the investment policy approved by the DISB. The Company shall amend its plan to include these investments provide it to the DISB for written approval.

### 5. Material Change in Reinsurance

In 2005, the Company obtained a new reinsurer, Ace, which the DISB considers to be a material change in the plan of operation. The Company did not provide notice of the change to the DISB to allow for prior written approval as required by DCIC § 31-3931.09(f). The Company shall file the change with the DISB for written approval and comply with this statutory requirement with regard to all future changes in reinsurance arrangements.

#### 6. Annual Statement Filing

Based upon the results of its independent audit, the Company did not timely file an accurate 2005 Annual Statement including the financial statements, Schedule F-Part 3 (Ceded Reinsurance) and Schedule P. Amended financial statements were filed on or about September 30, 2006. Further, the members of the Board of Directors listed in the Annual Statement and the Amended Annual Statement were incorrect. The Company shall timely and accurately file future Annual Statements including financial statements, Schedules and list of Members of the Board of Directors in accordance with NAIC Annual Statement Instructions. With regard to Schedule P, claim data shall be reported by accident year and not policy year as required by the NAIC Annual Statement Instructions. Further, audit premium shall be allocated to the appropriate accident years as required by the NAIC Annual Statement Instructions.

#### 7. Loss Experience Charges and Audit Premium Receivable

The Company's loss experience charges receivable includes amounts over six months past due from four members totaling \$157,356. The amounts are adequately secured by letters of credit provided by the four members. However, the delinquency potentially constrains the Company's liquidity, and the remaining members must compensate for these members not remitting amounts due timely. The Company shall adopt a consistent policy to address delinquent receivables in a timely manner including guidance regarding when the Company will seek funds available to it from letters of credit securing the receivables.

The Company calculates individual members' letter of credit requirements that are used to collateralize the members' loss experience charges and audit premium receivables. The examiners review of the Company's letter of credit calculations noted variances exist between the required and actual amounts at the individual member level. The Company shall adopt new procedures addressing the timely and accurate calculation of letter of credit requirements on at least an annual basis and require its members to fund or reduce such required letters of credit, as appropriate.

Audit premium receivables of \$42,824 have been outstanding for over two years. The examiner's review indicated that the Company has not properly managed the receivable account. Payments received in November 2004 have not been applied to outstanding balances as the Company has not determined to which members' receivables the cash should be applied. The Company shall adopt new procedures addressing the timely and accurate application of cash receipts to outstanding receivables.

#### 8. Provisional Loss Experience Charges Receivable

The Company's accounting policy requires the recognition of provisional loss experience charges as income in the year when the losses are incurred. The Company has estimated provisional loss experience charges receivable as 55% of the captive layer IBNR, net of reinsurance, or approximately \$6.3 million as of December 31, 2005. This estimation process and percentage is consistent with prior years. The Company states that the mythology is based upon historical studies and industry data used for comparable captive insurer liability insurance programs.

The Company shall file support for the estimation process and percentage with the DISB for its review and approval. Such documentation shall relate to company or industry loss data adjusted as appropriate as well as contractual justification for the methodology. The estimation process and percentage shall be updated and adjusted annually thereafter as appropriate.

### CONCLUSION

The examiners concluded that the Company's financial statements herein represent the financial condition and results of operations as of and for the year ended December 31, 2005. The examiners concluded that the Company is in compliance with statutory and regulatory requirements unless this report has indicated to the contrary.

Rudmose & Noller Advisors, LLC as represented by Dana Rudmose, CPA, AIE, AIR, AIRC and Mark Noller, CPA, CIE, AIRC represented the DISB as examiners for this examination. Glenn A Tobleman, FCAS, FSA, MAAA of L&E performed the actuarial phase of the examination.

Respectfully submitted by,

*Rudmose & Noller Advisors, LLC*

---

Rudmose & Noller Advisors, LLC

Reviewed by,

*James H. Lawrence III, CFE*  
Supervising Financial Examiner  
District of Columbia Department of  
Insurance, Securities and Banking



Arthur J. Gallagher Captive Services (Vermont)

Arthur J. Gallagher Risk Management Services, Inc

 **FILE**

December 4, 2006

Mr. Dana Sheppard  
Associate Commissioner, Risk Finance Bureau  
Government of the District of Columbia  
Department of Insurance, Securities and Banking  
810 First Street, NW, Suite 701  
Washington, DC 20002

**RECEIVED**  
2006 DEC 13 A 7:49  
DEPARTMENT OF INSURANCE, SECURITIES AND BANKING

Dear Dana:

This letter is in response to the draft examination for AssureCare RRG which was performed by the firm Rudmose & Noller Advisors LLC.

We have received the draft report and have reviewed the contents thoroughly. We have also had a discussion and meeting with Dana Rudmose and Mark Noller to review their comments and recommendations.

Further to their comments and recommendations, I wanted to emphasize Gallagher's commitment to proper and timely reporting to the DISB. At the same time, I do want to recognize the unique situation that AssureCare RRG was at during 2005. These comments were reviewed with Mr. Rudmose and Mr. Noller and some are included in their Report of Examination.

As you are aware, AssureCare was a Cayman Islands captive that was licensed on December 28, 2001 to provide general and professional liability coverage for the nursing home groups. On May 25, 2005, the company re-domiciled to the District of Columbia and at the same time reorganized as a risk retention group formed by the members.

The first closing year for AssureCare RRG was December 31, 2005, and the first annual statement for them was filed on March 1, 2006. In preparation of filing the 2005 Annual Statement, we had discussions with Johnson Lambert & Co. regarding the appropriate filing of AssureCare RRG, considering the company was an RRG for only seven months. We followed their recommendation that the period should start at June 1, 2005 and end at December 31, 2005. This would record all of the losses into 2005 and basically treat the company as a loss portfolio transfer from the Cayman Island Company to the risk retention group for the year ending December 31, 2005.

110 Kimball Avenue  
Suite 110  
South Burlington, VT 05403  
Direct 802.861.6800  
Fax 802.861.6803

Mr. Dana Sheppard  
Page Two  
December 4, 2006

In the comments and recommendations of Rudmose & Noller, they recommended the annual statement be refiled, which has been done, and that the company should treat these losses on their Schedule P as if the company were a risk retention group from 2001 to allow the development of the losses to be shown on the Schedule P.

An additional issue related to the filing of the annual statement was that the normal corporate cycle for AssureCare had been to close its books at December 31, prepare its member fund analysis, and during the month of February prepare for the audit, which would be done in April and May, and have the tax return processed at that time to meet the filing deadline of June 30 in the Cayman Islands. As the company is now a risk retention group, those adjustments were not made during their first operating year and, therefore, the annual statement did not have all the closing information. However, that information was compiled and included into the audited financial statements dated June 30, 2006.

It has been noted in recommendation and comment number seven that the audit premium of \$42,824 has been outstanding for over two years. We want to assure the Department that this error was found during the close of December 31, 2005, financial statements and it is part of the transition from the Cayman Islands to the U.S. domicile.

In looking at the recommendations in numeric order:

1. Conflict of Interest Statements

We did receive all of the conflict of interest statements and will continue to maintain these as an important document within the domicile and ensure that the company is in compliance with the regulations.

2. GCS Contract with the Company

GCS has a contract to go to the board for approval at their February 2007 board meeting. After the board ratifies and signs the agreement, a copy will be kept on file at the domicile management office.

3. GCS Contract with Assurance Agency

GCS does have a contract with Assurance agency. We discussed with Mr. Rudmose and Mr. Noller that the contract does not affect the RRG. They believe the contract should be on file in the domicile manager's office, and we will follow the recommendation.



Mr. Dana Sheppard  
Page Three  
December 4, 2006

4. Material Change in Investment Policy

The business plan had an investment policy statement which was put forward. We are currently working with the Board to finalize this procedure and we will put forward to the DISB a new investment policy statement.

5. Material Change in Reinsurance

We do not consider this to be a material change as we moved from Munich American Re to Ace, both of whom are A rated AM Best reinsurers. However, in the future, we will include the DISB in these underwriting considerations.

6. Annual Statement Filing

This item was covered above in body of letter.

7. Loss Experience Changes and Audit Premium Receivable

We discussed the audit premium above in the body of the letter. It should also be noted that the loss experience charges noted as six months past due that although these cash collections do sometimes take time to develop and collect, we assure the DISB that these are collateralized by evergreen LOC's and these LOC's are not released if these cash items are outstanding.

8. Provisional Loss Experience Charges

This recommendation will be reviewed, however, we do need to consider the historic nature of this accounting estimate. The company has used this estimate since 2001, we will need to review this process and estimate, and if there is a change based on the 2006 closing, we will review it with the Board of Directors and the company's auditors.

Mr. Dana Sheppard  
Page Four  
December 4, 2006

In closing, I think it was a difficult to select AssureCare for a regulatory audit considering that the company has only been licensed in the District for seven months and it has changed from a captive insurer to a risk retention group. Some of those changes, as you are fully aware, require different operating procedures. We intend to consistently apply the accounting and regulatory requirements to AssureCare and to maintain proper records for the Board and the DISB.

Sincerely,



Kevin J. Heffernan, CPA  
Vice President  
As Managers for AssureCare RRG

/ehl